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1MDB setback

# Scandal-hit Malaysia investment fund fails to clinch China deal

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In an ebullient New Year message, Najib Razak declared that the “major challenges” that faced 1MDB, the scandal-hit Malaysian state investment fund, were behind it. Critics of the prime minister have, however, seized on two apparent reversals as evidence that efforts to clear the fund’s debts are in disarray.

A crucial part of Mr Najib’s statement concerned a \$1.7bn deal to sell a stake in a Kuala Lumpur property project to a China-backed consortium. That deal has collapsed, with questions raised about Beijing’s role in vetoing the agreement.

At the same time, 1MDB agreed to pay \$1.2bn to the International Petroleum Investment Company, Abu Dhabi’s sovereign wealth fund, to settle an embarrassing dispute in which Ipic was claiming \$6.5bn. The dispute arises from a 2015 deal in which Ipic bailed out 1MDB. The Malaysian fund was to transfer assets in exchange.

1MDB is at the centre of multiple global investigations into alleged grand corruption. Swiss investigators allege

that up to \$4.8bn was diverted from companies linked to the fund, set up by the Malaysian premier.

“With the latest collapse of the proposed [property project] sale, the entire ‘rationalisation’ exercise ... hailed by the prime minister and cabinet has been completely unravelled,” said Tony Pua, an MP with the Democratic Action party, Malaysia’s main opposition group.

The setback for 1MDB’s debt restructuring came when a deal for a Chinese state-owned company to take a stake in the Bandar Malaysia property project fell apart.

The scheme, which involves turning a former military airport near the capital into high-end housing and offices, was a centrepiece of 1MDB’s aim of making strategic investments for Malaysia’s long-term development.

TRX City, a former 1MDB division owned by the Malaysian finance ministry, has said that the China-backed deal, agreed at the end of 2015, had lapsed because the buyers “failed to meet the payment obligations”.

China Railway Engineering Corp, which was due to invest through a joint

venture with a Malaysian partner, had not received the approval needed from the Chinese government, according to a person familiar with the matter.

A crucial factor was the difficulty that Iskandar Waterfront Holdings, the Malaysian partner, had in securing financing, according to two people with knowledge of the process. Mr Najib had

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lost patience and ordered the termination of the deal, one said.

Iskandar, controlled by Malaysian tycoon Lim Kang Hoo, said last week that it disputed TRX City’s statement, which “does not fully and accurately reflect the circumstances and conduct of the parties in this matter”.

Supporters of Mr Najib insist a buyer for the Bandar Malaysia land can still be found. “It became clear that a new deal could lead to a far higher price being obtained for the taxpayer,” an adviser to

the Malaysian premier said. “There is no question ... that Bandar Malaysia will continue. Indeed, the steps taken, and a new developer, will lead to a hugely better deal for the government and taxpayer.”

Mr Najib’s opponents fear that Malaysian taxpayers face mounting obligations following the collapse of the Bandar Malaysia deal and the agreement with Ipic.

A Malaysian parliamentary inquiry last year identified billions of dollars in questionable transactions by 1MDB, including funds transferred to a British Virgin Islands company whose name resembles that of an Ipic unit.

“Because 1MDB simply does not have any more substantial tangible assets or cash in its books, the Malaysian taxpayer will have to pay for most of 1MDB’s still-outstanding debts,” Mr Pua said.

The collapse of the Bandar Malaysia deal has also raised broader concern about the prospects for Malaysia’s dealings with China. Mr Najib’s supporters, however, insist the relationship between the countries remains strong, with ties at a “historic high”.